

**USAID/Nicaragua**

**Annual Report**

**FY 2004**

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## Nicaragua

### Performance:

Despite the negative political environment that continues to prevail, Nicaragua has made great strides in a number of areas critical to the country's development. Over the past few years, the country has achieved significant milestones in modernizing the foundations of its justice system, including the enactment of a new Criminal Procedures Code that establishes oral trials and the basis for a more transparent, public criminal justice system. The current government launched an aggressive anti-corruption campaign and has increased transparency and accountability of government institutions. Some of Nicaragua's greatest advances occurred in health, family planning, and education, accomplishments that, even though primarily funded with donor resources, are all the more remarkable given the country's resource constraints. During its two years in office, the current government has improved fiscal and monetary stability by reducing the fiscal deficit through a combination of expenditure discipline and revenue enhancement, while maintaining poverty-related expenditures. This improved fiscal performance has enabled the government to pursue a more growth-oriented macroeconomic stance. President Enrique Bolaños has built more roads in his first two years in office than did either of his two immediate predecessors during the same period or did the Sandinistas over twelve years. The government also reported that more than 20,000 direct jobs and an additional 60,000 indirect jobs were created in manufacturing and construction in 2003.

Unfortunately, the more favorable macroeconomic environment has yet to translate into sufficient job-creating and poverty-reducing economic growth. Per capita GDP income levels are lower than those of the 1960s, and real economic growth declined from 7.4% in 1999 to 1% in 2002, although there are indications that GDP may grow by 2.3% in 2003. Nicaragua's combined external and internal debt of \$6.5 billion and \$1.5 billion, respectively, is greater than its 2002 GDP, and serves as an economic straightjacket that inhibits future growth. Around three-quarters of the population live on less than two dollars a day; unemployment and underemployment are close to 50%; and income inequality is very pronounced. Access to capital decreased sharply with the collapse of the national banking sector in 2001, and, on the whole, foreign direct investment has been declining. Despite its rich territorial potential and substantial donor support, economic growth has failed to take off, with the country still the second poorest in the Western Hemisphere. The present demographic reality of Nicaragua is that the country needs to create 100,000 new jobs every year between now and the year 2020, just to keep up with the status quo. Even greater efforts will be needed to reduce poverty.

While Nicaragua has established an electoral democracy, with technically fair elections and a free press, it has not achieved a functional democracy. Democratic institutions are easily manipulated in favor of personal and political interests, observance of the rule of law is still fragmented, and, while the current Nicaraguan government has made great efforts to fight it, widespread corruption remains. The inability to enforce contracts and the lack of transparency and reliability in judicial decisions are among the most serious obstacles to investment in Nicaragua. The justice system in general is inefficient and politicized, and additional reforms are needed to establish the legal framework required for transparent government.

Though significant improvements in health and education were made over the past decade, these were almost entirely donor-funded and notable problems remain. The average Nicaraguan has fewer than five years of schooling, and nearly 500,000 children aged 3 to 12 remain outside the formal education system. Population growth is estimated at 2.4%, one of the highest in the region. There are serious inequities in health care access for the poorest 40% of the population, and chronic malnutrition levels remain high for Nicaraguans in the lowest income groups.

U.S. Interests and Goals: Nicaragua has the potential to be a stabilizing factor in the region. The current

government of Nicaragua has been an ally of the U.S., supporting U.S. foreign policy, including the fight against terrorism. Increased stability in Nicaragua's democratic institutions and growth in its impoverished economy are at the heart of U.S. interests to maintain Nicaragua among those nations aspiring to contribute to a more secure, democratic and prosperous world. U.S. national security can be affected by Nicaragua's poorly controlled borders and weak governmental institutions that cannot adequately defend against international terrorism and transit of illegal aliens, drugs and arms. Promoting economic growth through integration in regional and global markets is a top U.S. foreign policy priority, since Nicaragua's poverty and high unemployment rate can threaten the long-term sustainability of democracy and rule of law. USAID's assistance program for Nicaragua is a vital element in achieving these U.S. foreign policy objectives and is central to the USAID-State Department Strategic Plan goals of democracy, economic prosperity and security, and social and environmental issues.

**Donor Relations:** The Government of Nicaragua (GON) continues to strengthen donor coordination through the recently established sector coordination roundtables. These roundtables reflect a worldwide trend toward sector-wide assistance programs, or SWAPs, a mechanism where clear strategies and policies for each sector help harmonize donor assistance towards a common vision for the country. USAID leads the economic growth roundtable. This new system promises to be an improved forum for donors, the GON, civil society and other relevant players to prioritize development needs jointly, coordinate donor activities and enhance synergy. During the recent Consultative Group meeting, the donors expressed support to the GON, and committed to stronger terms of engagement, as embodied in the "Declaration of Managua." It is therefore expected that donor relations will become more robust, resulting in significant improvements in the effectiveness and efficiency of donor assistance.

The Nicaraguan Ministry of Foreign Relations reports that donor assistance in grants and loans totaled \$3 billion during 1997-2002. Based on the annual average assistance level during this period, the top six bilateral donors are (in descending order): Japan (education and training including school construction, health and agricultural production), US, Republic of China (agriculture, small- and medium-sized enterprise lending, housing and trade promotion); Sweden (transport and communications, governance, education and health); Germany (water supply and waste water management, governance and decentralization); and Denmark (productive sector programs including infrastructure, decentralization and strengthening public administration and environment). Of the multilaterals, the major donors are the Inter-American Development Bank (IDB) (competitiveness and economic growth, governance, social sector adjustment including social safety nets), the World Bank (to support the implementation of Nicaragua's Poverty Reduction Strategy Paper or PRSP including institutional building and modernization of the state, land tenure, agriculture, education and health), the European Union (rural development, agricultural policy reform, governance and citizen security and education) and the World Food Programme (food security). An IDB report indicates that donors, in general, provide broad support for the pillars of the PRSP by focusing approximately 41% of their assistance in economic growth and reform programs, 38% for human capital formation and support for vulnerable groups, 7% for governance and 14% for the cross-cutting themes of environment, social equity and decentralization.

**Challenges:** Bold and decisive action is needed to establish the policies and systems that will reinforce democracy and promote trade-led growth as the best answer to the country's development problems. Nicaragua must accelerate the pace of economic and social policy reform in order to position itself to benefit from the new trade opportunities under free trade agreements such as the Central America Free Trade Agreement (CAFTA) and ensure that all Nicaraguans share in the benefits of growth. Participation in CAFTA is expected to boost the sagging economy but requires Nicaragua to make investments in worker productivity and infrastructure, and demands a secure legal and regulatory framework for business investment and trade to thrive. Economic growth must be coupled with mechanisms to ensure that Nicaragua's natural resources are protected while creating sustainable ecological-related business activities. Nicaraguan growth and prosperity will come about only in the context of good governance and regional integration. The current GON has made significant advances in tackling the country's economic problems and in rooting out corruption, and has shown that improving health care and increasing access to quality education are priorities.

Nicaragua is challenged to increase substantially investments in basic education and health and to

manage those investments better. Systemic improvements are needed to transform social sector services and increase transparency in budgeting, procurement, and decision-making in the sector. Both public and private actions are equally important to this effort to lay the foundation for better educated, healthier Nicaraguans with increased capacity to share in the benefits of a growing economy. And, most importantly, all branches of government must serve the citizens of Nicaragua, instead of personal or political party interests. USAID proposes to implement a focused, sustainable development program that will help continue and strengthen these efforts by the Nicaraguan Government and help the country move forward in the performance areas established in the Millennium Challenge Account (MCA).

**Key Achievements:** Despite attempts by political party bosses to dismantle gains made in strengthening government institutions and fighting corruption, FY 2003 was a year of noteworthy progress for the USAID program in Nicaragua, as the Mission built on lessons learned and best practices from throughout the life of the old strategy, ending in FY 2004, that enabled it to design an effective transition into the new Central America and Mexico (CAM) Regional Strategy and the Nicaragua Country Plan. USAID's program contributed significantly to these achievements that were accomplished in Nicaragua's fight against corruption, justice reform, economic growth and improvements in health and education. This effectiveness is due in large measure to the respect and confidence that GON and USAID officials share. The GON policies resonate with development precepts outlined in President Bush's Millennium Challenge Account (MCA) of ruling justly, economic freedom and investing in people. The challenge in the coming years will be to implement these policies, given the GON's resource constraints, and the political boss practices that reinforce non-democratic principles.

1. **More Political Participation, Transparency and Compromise:** The Criminal Procedures Code entered into effect nationwide in December 2002. USAID contributed to the successful implementation of the Criminal Procedures Code by providing training to judges, prosecutors, public defenders, private lawyers and others, and helping resolve the constraint of inadequate public defender coverage throughout the country. USAID projects also helped to consolidate new justice sector institutions that are assuming key roles under the new Criminal Procedures Code. During the past year, USAID helped the GON expand its capabilities to prosecute ground-breaking corruption cases by providing training and technical assistance, equipment and vehicles to prosecutors. Breaking a longstanding impasse, USAID helped the Nicaraguan Chamber of Commerce launch a joint initiative with the GON to promote the drafting of an alternative dispute resolution law. The law is aimed at providing an accessible mechanism that meets international standards for resolving commercial disputes, which will help prepare Nicaragua for the implementation of CAFTA, by improving the environment for trade and investment. USAID launched a civil society program to address priority objectives for legal reforms, transparency and human rights. Responding to widespread concern regarding the global and regional problem of trafficking in persons, USAID collaborated with the U.S. Embassy in launching a special initiative to examine the scope of the problem. The project has initiated a Nicaraguan anti-trafficking coalition and task force.

2. **Sustainable Growth in Small Producer Employment and Income:** To date, more than 116,000 farmers have accessed USAID programs, resulting in crop diversification, new market opportunities, and increased incomes. In FY 2003, 29,130 beneficiaries of USAID programs have diversified their agricultural crops, increasing production and access to local, regional, and international markets. In support of CAFTA negotiations, a U.S. Presidential Initiative, approximately 4,500 people attended, during FY 2003, USAID-funded training and seminars to learn about the accord and experiences in other countries with free trade agreements (e.g., Chile and Mexico). In coordination with the Government of Nicaragua (GON), USAID implemented a civil society outreach program aimed at disseminating information about CAFTA and informing the Nicaraguan public of the opportunities and challenges associated with free trade. USAID's microenterprise program was also successful, providing more than 110,000 loans during the strategy period. Protected areas under USAID's natural resource management program achieved an average score of 105 on the Protected Area Index, exceeding the target of 95. The P.L. 480 activities have been successfully integrated into USAID's program to promote trade-led growth. Through the use of improved technologies and market linkages, farmers participating in the P.L. 480 program increased sales in produce. Through the USAID-U.S. Treasury Department Technical Assistance Program to the Ministry of the Treasury and Public Credit, USAID assistance helped to restructure \$285 million of the Central Bank debt. USAID technical support to the Nicaraguan National

Assembly on economic policy contributed to the passing of the Law on Tax Equity and the Law on Forest Conservation. The Tax Equity Law allowed the GON to collect \$366 million in taxes in 2003, which was 6% above the target and 23% above 2002 collections.

3. Better Educated, Healthier, Smaller Families: This SO has contributed to Nicaragua's achievement of important results in health and education. According to the latest Demographic and Health Survey (2002), chronic childhood malnutrition fell to 20%. Although still high, it is one of the region's lowest. Infant mortality dropped from 58 to 31 per 1000 births over the past 10 years. The total fertility rate fell from 4.6 children per woman to 3.2, due to overwhelming acceptance of contraceptive measures, with nearly 69% of women using modern methods. USAID directly contributed to the increase of contraceptive use by purchasing 75% of the contraceptives used in Nicaragua. USAID's "Fully Functional Service Delivery Point" health model was implemented in over 150 health facilities, resulting in a sharp decline in maternal deaths due to obstetrical cause and a decline in infant deaths. USAID's model school program increased student access to quality education, with school completion rates exceeding non-model schools by over 20%. Academic achievement increased by 8% in Spanish and 12% in math since the program began. The success of USAID's model school program led to the GON decision to scale-up the model nationwide. A Global Development Alliance (GDA) in education has led to the replication of the USAID-supported model school to an additional 135 schools. Child survival activities under P.L. 480 Title II, using the Integrated Child Care model, have contributed to reducing chronic childhood malnutrition among at-risk populations.

Gender: In general, both men and women have participated in the Mission's democracy strengthening, economic growth, health and education programs, although participation rates vary by type of activity. The Mission has formed a gender committee with a representative from each of the strategic program areas to ensure that gender mainstreaming is an integral part of all activities under the new Central America and Mexico Regional Strategy.

Trade Capacity-Building: The Trade Capacity-Building program provided support for three important areas: public outreach and communications; trade agreement implementation; and increasing competitiveness. USAID provided assistance to the Nicaraguan Government for public awareness and consultations to ensure that the Nicaraguan people understand and have a voice in the negotiations and the outcome and implementation of CAFTA. Activities included technical assistance for public-private partnerships that identify and remove barriers to trade, and promote a culture of competitiveness, free trade and regional economic integration. The program provided technical assistance for diversification of the rural economy, help with local, regional and world marketing, and linkages to "green markets" that promote sustainable development goals for protected areas, forests and water sources. Trade capacity building will be a major focus of the new Central America and Mexico Regional Strategy and the Mission's country plan.

**Country Close and Graduation:**

## Results Framework

### **524-001 More Political Participation, Transparency and Compromise**

#### **SO Level Indicator(s):**

- Civil liberties score
- Political rights score
- 1 Consolidating the rule of law
- 2 Efficient and transparent elections
- 3 Strengthened civil society
- 4 More accountable and responsive government

### **524-002 Sustainable Growth in Small Producer Employment and Income**

#### **SO Level Indicator(s):**

- Agricultural GDP growth rate
- 1 Small farmers produce more and diverse crops
- 2 Small businesses and microenterprises expanding
- 3 Natural resources being used more rationally

### **524-003 Better Educated, Healthier, Smaller Families**

#### **SO Level Indicator(s):**

- Fifth grade completion rates in model schools
- Infant mortality rate
- Total fertility rate
- 1 Integrated child survival services and practices
- 2 Comprehensive reproductive health services
- 3 Better nourished women and children
- 4 More students learning more and completing primary school

### **524-021 Ruling Justly: More Responsive, Transparent Governance**

#### **SO Level Indicator(s):**

- Changes in user assessments/evaluations of the responsiveness and quality of service of key government agencies
- Trial court performance
- 1 Strengthened rule of law
- 2 Greater transparency and accountability of government

### **524-022 Economic Freedom: Open, Diversified, Expanding Economies**

#### **SO Level Indicator(s):**

- Changes in composition and contribution of various, higher value-added sectors to the economy
- Increase in trade as percentage of GDP
- 1 Laws, policies and regulations that promote trade and investment
- 2 More competitive, market oriented private enterprises

### **524-023 Investing in People: Healthier, Better-Educated People**

#### **SO Level Indicator(s):**

- Immunization rates: DPT
- Net enrollment rates for grades 7-9
- Primary education completion rates
- Total fertility rates
- 1 Increased and improved social sector investments and transparency
- 2 Increased and improved basic education opportunities
- 3 Improved integrated management of child and reproductive health